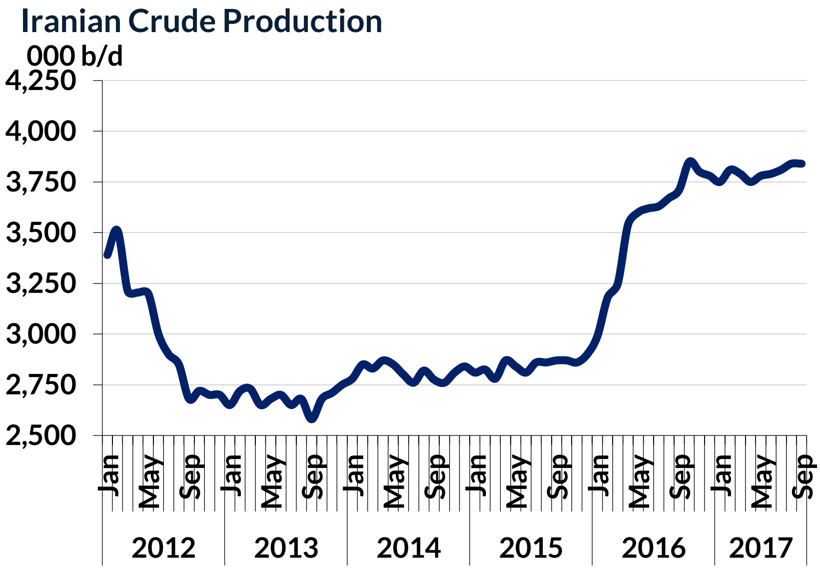
Trump tackles Iran

Weekly Tanker Market Report

President Trump hasn't been shy when it comes to dealing with America's adversaries. First his focus seemed closer to home, targeting Venezuela with new sanctions and threatening to implement an oil embargo (see our report dated 4th August). He then took aim at North Korea, intensifying the rhetoric, and raising tensions in the region. Now the focus seems firmly on Iran. Iran, unlike North Korea, has major significance for the oil markets, and thus major implications for tanker demand.

Last week Trump chose not to recertify the Joint Comprehensive Plan of Action (JCPOA), agreed with Iran and six other powers in 2015. So what happens now? The re-imposition of sanctions is not automatic. Congress now has 60 days to decide whether or not to reimpose sanctions. However, and perhaps significantly, the President has not asked Congress to reimpose sanctions. Instead he has stressed the need for Congress and the participants of the JCPOA to act to address his issues with the agreement. Is this achievable in the next 60 days? Perhaps it is a tall order as the US alone does not have the power to amend the JCPOA, and needs the consent of the France, the United Kingdom, Germany, the European Union, Russia and China, as well as Iran. Nevertheless, US Senators are drafting legislation, reportedly to make the re-imposition (snapback) of sanctions automatic if certain conditions are met.



Of course, if a resolution cannot be found, the worst-case scenario for the tanker markets is that Iranian exports to Europe will cease, although exports to China, India, Korea and Japan may well continue, as they did when sanctions were in place. However, lower demand for Iranian oil would likely force production lower, whilst the National Iranian Tanker Co (NITC) may find its tradability impacted, and be forced to return some VLCCs to storage duties. On the face of it, any reduction in Middle East exports is negative for crude tanker demand. Yet what really matters is total volumes out of the Middle East, as opposed to Iran alone. In fact, the impact would be offset if other Gulf states were to make up for any Iranian shortfall. An additional benefit for the wider tanker market may be found as any rising exports from other Gulf states would be carried on non-Iranian tonnage.

There is, however, no guarantee that any fall in Iranian production would be met by increases elsewhere in the Middle East. In fact, OPEC could use such declines to accelerate the balancing of the market. Yet, before we get to the stage of total collapse of the JCPOA, there may be some scope for diplomacy. European leaders appear committed to the existing deal, whilst many western firms (Airbus, Boeing and Total to name a few) have become major stakeholders in Iran, thus there appears very little appetite amongst other JCPOA signatories to return to the sanctions' era.

Crude Oil

Middle East

VLCC Owners had hoped to ride last week's upward momentum into this week and then take a further step higher, but Charterers played a steady hand and, as the fixing pace slowed, the fight was more to hold ground, rather than push for an increase. Rates to the East still operate within a wide range with older units agreeing down to ws 60 East and modern vessels closer to ws 70 - a little off from the peaks. Little seen to the West, but modern units were willing around ws 27 via Cape and over-aged vessels into the low ws 20's. Suezmaxes saw improved short-term fundamentals and kept knocking on the rate ceiling. Nothing dramatic, but a fine early balance has developed and the current 130,000mt by ws 87.5 East and ws 40 West could be bettered within short. Aframaxes also tightened and gained day by day to end at 80,000mt by ws 145 to Singapore with perhaps a little more to come.

West Africa

Suezmax Owners found more belief as activity picked up and despite reasonable ongoing availability, positive sentiment filtering from other load zones helped convert the action into higher rates. 130,000mt by ws 85 to the USGulf and ws 87.5 to Europe now and consolidation, at least, underway. VLCCs started brightly enough, but started to react negatively to the lack of forward progress in the AGulf so that rates were slipping towards ws 70 to the East by the week's end.

Mediterranean

Aframaxes couldn't hold onto the highs set last week and gradually eased as the week progressed. 80,000mt by ws 125 X-Med currently with both sides looking for a catalyst to move things in their favour. Balanced just for now though. Suezmaxes had already benefitted from the prior Aframax spike, but then saw better attention in their own right too. Delays in the Bosphorus also started to creep upwards and rates followed to 140,000mt by ws 100+ from the Black Sea to European destinations and to around $3.1 million for runs to China. To be continued for a while yet as it seems.

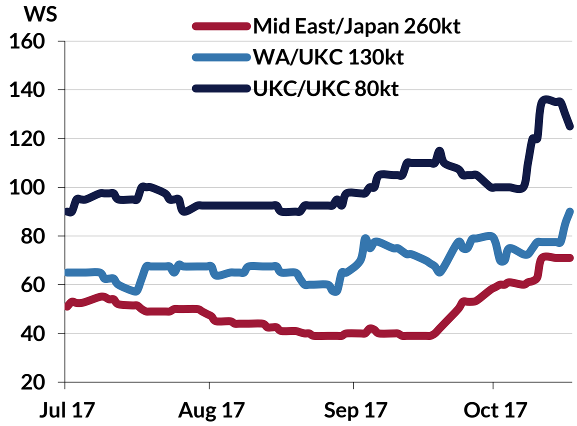
Caribbean

Aframaxes continued the easing trend that had set in late last week, but then held up at the 70,000mt by ws 125 level upcoast, but with a 'horses for courses' theme allowing for fairly wide variance depending upon specific needs. VLCCs had already moved into a finer balance and forward positions will remain quite tight against anticipated demand. Rates inflated to $4 million to West Coast India and to around $4.5 million to Singapore with no retreat likely next week.

North Sea

Up a bit and then down a bit for Aframaxes here. Initially buoyed by X-Med gains, the market here followed a pace behind, but then a lack of local action led rates back to 80,000mt by ws 117.5 X-UKCont and to 100,000mt by ws 100 from the Baltic. VLCCs are in short supply, but little firm interest was seen. Owners hold for no less than $3.8 million for fuel oil to Singapore and $5.2 million for crude oil to South Korea.

Crude Tanker Spot Rates



Clean Products

East

MRs have really thinned off early dates this week and look remarkably tight until end month fixing window. The only thing which is curtailing any progression of rates is the underperforming LR1 market; and we have seen, as always in these situations, cheap LR1 shorthaul numbers for MR cargoes. West voyages have bounced around this week, but $1.175 million should be the next done level. The caveat for Charterers being that they will top up barrels where possible to take advantage of cheap LR westbound numbers. TC12 was fixed at ws 157.5 and should remain flat going into the fresh week. Shorthaul intra-Gulf cargoes were put under pressure by LR1s as previously mentioned, and will trade at $180k, with runs into the Red Sea trading at $475k. EAF as always has remained popular, and it has been surprising given the number of times it has been tested, that rates off this incredibly tight front end haven't been pushed up more. Last done remains ws 215, but there is scope for firming in the new week.

This week we have seen a softer sentiment on the larger tonnage, with LR2s seemingly finding their floor and LR1s coming off. The LR2 position list looks tight finishing the week, and there is no reason why rates should come off any further. TC1 is trading 75 x ws 112.5, but as we see more first decade cargoes traded next week this may see a slight increase. West cargoes are now trading at $1.8 million. A couple of cheap numbers done on ships with no Sire or with guaranteed Med discharge. LR1s are the underperforming sector of the market, 55 x ws 115 has been put on subs, but this will come under continued pressure in the new week. West runs again are on subs at $1.35 million basis an AGulf load, but Charterers will feel that there is more fat to be cut out of this in the new week as well.

Mediterranean

Prompt tonnage was rife across the Med throughout week 42, which fuelled the fire for the market to soften. X-Med rates fell by 20 points throughout the week and has now settled at 30 x ws 140 with the general sentiment that rates are likely to come off further. Black Sea rates corrected themselves towards the end of the week with the rule of thumb ws 10 point premium at 30 x ws 150 being enforced. Enquiry in the Med continued to be slow during the week and Owners will be hoping that fresh enquiry is seen come Monday for the market to begin to stabilise.

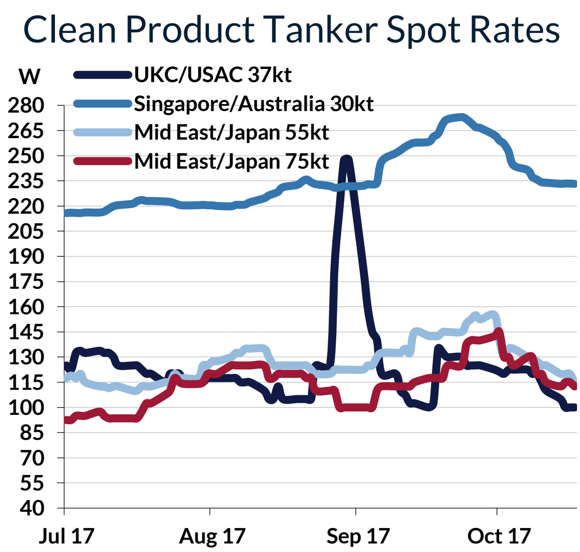
Tight tonnage for the MR's was cancelled out by slow enquiry, meaning that rates continued to track those in NWE. Transatlantic runs are now at 37 x ws 100 and WAF runs are now trading at 37 x ws 115. As tonnage is recycled, fresh enquiry will need to be seen at the beginning of week 43 in order to hold last done rates.

UK Continent

As we come to the close of week 42, Owners in the MR sector have been given a limited supply of transatlantic voyages which have been a thorn in their side throughout. A good demand for runs down to WAF has given Charterers a chance to test our market pulling rates down from 37 x ws 125 to ws110. This in turn has dragged our transatlantic voyages back towards the 37 x ws 100 point, with a little less on the cards as we reach Friday. Looking forward, Owners will be hoping for the arb to reopen to the States, to see a glut of fresh enquiry, otherwise we could see more of this pressured market ahead.

For the Handies, the week started with a flat sentiment of 30 x ws 140, but it wasn't long till Charterers managed to sink their teeth in. Pressure was seen on Owners as we saw ws 135 on subjects closely followed by ws 130 and this is where we settle after a brief stint at 30 x ws 127.5 X-UKCont runs have been in limited supply leaving rates untested, but we can expect to fall in line towards the 30 x ws 120 mark.

Finally, to the Flexis where a quiet week has seen little market activity throughout. The occasional enquiry has shown this market to settle at 22 x ws 175 loading Baltic and -5 points for a X-UKCont movement. For the moment, this market continues to track the Handy market and can expect little volatility whilst things remain damp for the Handies.



Dirty Products

Handy

As the week progressed in the continent the position list began to stretch, and with less availability rates started to creep northwards in direction. The market peaking at ws 180 for the week, a platform has been set from which Owners can further build, which together the commencement of November's programme has the potential to keep sentiment firm in the region across at least the front week ahead.

In the Med, conditions were rather more progressive where from an initial spurt in activity it became clear that Charterers held some aces up their sleeves with hidden tonnage helping to keep supply balanced. This said, we did see a small amount of increment between deals at the early stages of the week, however, once the market hit ws 175, drip fed requirements thereafter curtailed further aspiration from Owners, with agendas shifting more towards not missing the market on the first units in need of fixing.

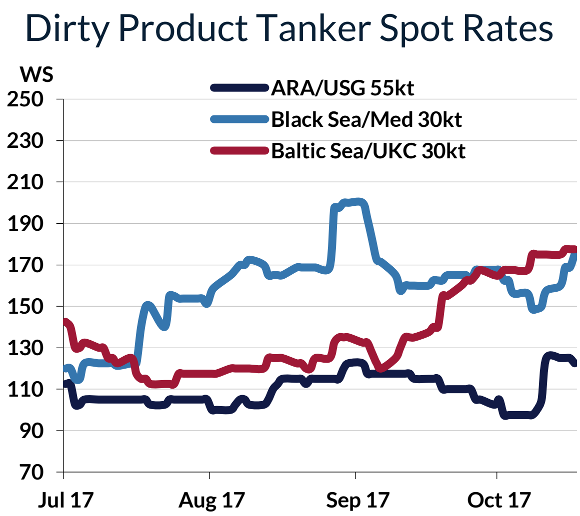
MR

Charterers in the continent have continued to face the uphill battle of finding coverage with the region being starved of naturally placed units for the duration. Eyes have been forced to scan nearby regions for potential ballasters as the market continues to be freighted on a case by case basis. Adding to Charterers difficulties this week both smaller and larger tonnage options continue to also be limited and with bad weather hitting the region over the weekend, Charterers will likely face a similar task heading into week 43.

A pleasing week for Owners in the Med, with end month programmes in full swing keeping positions tight and with ws 125 fixed for X-Med proving Owners were there to take advantage. Heading further into the working week (with Charterers now looking covered) we did witness a slight lull in fresh enquiry and early next week could bring the start of the market now settling. Charterers will have a keen eye on the fresh position list Monday morning searching for any signs of weakness.

Panamax

This sector seemed to step up a gear this week where Owners ceased on an opportunity to bring about "fairer" parity in fixing levels between the US and Europe. A mini frenzy occurring off of end / early dates which duly assisted with realising claims that ws 125 should be a valid benchmark and indeed this proved to be the case for a limited time. Still Owners will not be too unhappy at where values eventually settled as at just ws 2.5 points from the peak, this week, will be recorded as one for showing volatility beyond what is typically seen in the Panamax sector.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 19th	Oct 12th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+8**	72	65	43	76
TD20	Suezmax	WAF-UKC	**+11**	88	77	65	90
TD7	Aframax	N.Sea-UKC	**+1**	126	125	92	111

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Oct 19th	Oct 12th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+6,750**	29,750	23,000	8,750	33,500
TD20	Suezmax	WAF-UKC	**+3,750**	16,750	13,000	9,250	17,750
TD7	Aframax	N.Sea-UKC	**+1,000**	25,250	24,250	1,000	13,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 19th	Oct 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2**	113	115	125	
TC2	MR - west	UKC-USAC	**-20**	99	119	114	132
TC5	LR1	AG-Japan	**-9**	118	126	135	124
TC7	MR - east	Singapore-EC Aus	**-1**	233	234	221	

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	Oct 19th	Oct 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,250**	10,250	11,500	15,500	
TC2	MR - west	UKC-USAC	**-2,750**	2,000	4,750	4,500	6,750
TC5	LR1	AG-Japan	**-1,250**	7,500	8,750	10,750	8,500
TC7	MR - east	Singapore-EC Aus	**-250**	11,750	12,000	12,250	

(a) based on round voyage economics at 'market' speed

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